

GAO

Report to the Honorable
William V. Roth, Jr., U.S. Senate

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DEFENSE MANAGEMENT

Efforts to Streamline Acquisition Management Structure



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United States
General Accounting Office
Washington, D.C. 20548

National Security and
International Affairs Division

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December 5, 1990

The Honorable William V. Roth, Jr.
United States Senate

Dear Senator Roth:

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As you requested, we have reviewed the military services' efforts to streamline their acquisition management structures as called for in the Secretary of Defense's July 1989 Defense Management Report (DMR). The goal of such efforts, according to the DMR, is to confine accountability for all cost, schedule, and performance features of major defense programs¹ within a streamlined three-tier management structure. This report describes the services' implementation of the DMR three-tier initiatives. We found that it was too early to determine if the revised three-tier structure, as described to us, actually functions in a manner that achieves the desired goals.

Background

In 1986, the President's Blue Ribbon Commission on Defense Management (the Packard Commission) reported that the Department of Defense's (DOD) acquisition management had become so encumbered and unproductive that weapons historically cost more than planned and took too long to develop and deliver. The Commission stated that the DOD acquisition system lacked, among other things (1) clear accountability for acquisition execution and (2) unambiguous lines of authority for individuals with program management responsibilities.

To correct these deficiencies, the Commission recommended that each service establish a streamlined three-tier acquisition management structure for all major defense programs. The structure consists of a Service Acquisition Executive (SAE), responsible for all service acquisition matters; Program Executive Officers (PEO), individually responsible to the SAE for a defined and limited group of major programs; and Program Managers (PM) responsible exclusively to their respective PEO for all matters relating to their individual major program.

¹Major programs are defined by Department of Defense Directive 5000.1 as those having \$200 million in research and development funding or \$1 billion in total procurement cost. The directive also designates major programs based on the urgency of need, development risk, joint funding, significant congressional interest, or other considerations.

External reports of the services' implementation of these recommendations concluded that efforts to establish this structure were far from satisfactory.² These reports stated that (1) the new titles were assigned to existing positions in the old chain of command, (2) the new three-tier positions did not have the authority and control the Packard Commission had envisioned, and (3) intermediate management layers still existed throughout the three-tier structure.

In February 1989, following the above studies, the President directed the Secretary of Defense to review DOD management and develop a plan to fully implement the Commission's recommendations, improve the acquisition process, and more effectively manage DOD resources. The Secretary's July 1989 DMR responded to this directive. The DMR specified that, among other things, revisions be made to (1) the services' three-tier structure—also called the PEO structure and (2) the materiel and systems commands' roles that relate to the structure. The services' plans for implementing the DMR directives were approved and made public in January 1990.

Results in Brief

As prescribed in the July 1989 DMR, each military service has taken actions to revise (1) its three-tier structure and (2) the roles of its materiel and systems commands. These revisions, if fully implemented as intended, will more clearly separate the streamlined acquisition structure from the services' existing structure by (1) appointing SAEs and PEOs that devote full time to acquisition matters, (2) giving three-tier officials more control over acquisition resources, and (3) removing unnecessary review layers from the acquisition process.

DOD has not yet issued guidance—revised DOD Directive 5000.1 and Instruction 5000.2—implementing the DMR changes. The services, pending issuance of such guidance, have not updated their policies and procedures to reflect the DMR changes. However, some services have issued guidelines concerning the responsibilities of certain three-tier acquisition officials. Until DOD provides guidance and the services' policies and procedures are updated, issued, and implemented, we cannot determine, at this time, whether or not DOD's management accountability goal will be fully achieved.

²Defense Acquisition Observations Two Years After the Packard Commission, The Institute for Defense Analyses (Washington, D. C.: Nov. 1988); Report R-347 and Making Defense Reform Work, The Johns Hopkins Foreign Policy Institute and the Center for Strategic and International Studies (Washington, D. C.: Nov. 1988).

Acquisition Roles and Responsibilities Clarified

The services have taken actions to revise their acquisition structures in an effort to streamline the acquisition process and to clarify management accountability for major acquisition programs. In complying with the DMR, they have clarified the acquisition roles and responsibilities of their SAEs, PEOS, PMS, and materiel and systems commands.

SAEs

Our 1989 report³ and other external evaluations⁴ of DOD's efforts to streamline its acquisition management system revealed that some of the services had created SAE positions by superimposing the title on existing positions and some had not given the SAEs the authority envisioned by the Packard Commission. Our report pointed out that some SAEs (1) did not devote full time to acquisition matters, (2) were not authorized to issue acquisition policy, (3) could not appoint or appraise PEOS, and (4) did not control acquisition resources.

To ensure SAEs would be full-time acquisition officials and would possess the authority and control envisioned by the Commission, the DMR stated that each SAE will

- be a civilian official at the assistant secretary level;
- devote full time to service acquisition functions;
- perform acquisition functions that are not duplicated in the service chief's organization;
- have primary responsibility for rating the performance of PEOS; and
- select PMS, with the advice of the PEO who has primary responsibility for rating PMS.

The newly established SAE positions, as described by service officials, conform with these requirements. For instance, officials stated the Army and the Navy have appointed SAEs at the assistant secretary level that devote full time to service acquisition matters. The Air Force SAE, prior to the DMR, was already an assistant secretary and was devoting full time to acquisition.

³Acquisition Reform: DOD's Efforts to Streamline Its Acquisition System and Reduce Personnel (GAO/NSIAD-90-21, Nov. 1, 1989).

⁴Defense Acquisition Observations and Making Defense Reform Work.

Prior to the DMR, the Army and Navy SAEs were service under secretaries,⁵ as the Packard Commission had recommended. But, contrary to the Commission's recommendation, these under secretaries had numerous other responsibilities and could not devote full time to acquisition matters. The Commission, according to its Chairman, intended to give the services latitude in implementing this recommendation. The Chairman stated that the key issues regarding the SAE position were that the appointed individuals should devote full time to acquisition matters and have the requisite authority over these matters. Accordingly, we believe a full-time SAE at the assistant secretary level is consistent with the Commission's intent, provided the SAE's role, responsibility, and authority are clearly stipulated in DOD directives, regulations, or other formal guidance.

We noted in our 1989 report that the Air Force and Navy SAEs shared acquisition responsibilities with other service officials and did not have the authority and control intended by the Commission. According to officials in each of the three services, the new SAEs do not share acquisition responsibilities with any other service official, and their functions are not duplicated in any of the service chief's organizations—including the materiel and systems commands. These SAEs, through service guidelines and regulations, also have the authority to issue acquisition policy, appraise PEOs, and manage their resources.

Service officials further told us that SAEs also have primary responsibility for rating the Direct Reporting Program Managers assigned to the three-tier structure. These managers, according to service officials, report directly to the SAE because they control broad or complex systems. For example, the PMs for the Navy's Aegis missile and the Air Force's B-2 bomber are considered Direct Reporting Program Managers. At the time of our review, the Air Force had one Direct Reporting Program Manager, the Navy had four, and the Army had two.

PEOs

Prior to the DMR, PEO titles in the Navy and Air Force were superimposed on existing command chain⁶ positions. Both services assigned PEO titles

⁵On May 13, 1989 (2 months before the DMR was issued), the Secretary of the Army appointed an assistant secretary to replace the Under Secretary as SAE. The Navy did not appoint an Assistant Secretary as SAE until March 1990.

⁶This chain consists of the services' Secretary and Under Secretary, Chief of Staff, and commanders of the materiel and systems commands and their subordinate commands.

to commanders of systems acquisition commands. Under this arrangement, the PEOs did not devote full time to acquisition matters and reported through two chains of command—the three-tier PEO chain and the existing chain. As we reported in 1989, the Army created full-time PEO positions separate from the existing command chain. However, these PEOs also reported through two chains of command.

To ensure that PEOs would report through clear, unambiguous chains of command and possess the characteristics envisioned by the Packard Commission, the DMR directed each service to establish PEOs that

- are selected by the service secretary with advice from the SAE;
- are only responsible for acquisition matters;
- are accountable to their respective SAEs;
- individually, devote full time to managing a defined and limited group of major programs and related technical support resources;
- collectively, manage all major acquisition programs; and
- provide advice, along with the SAE, on the selection of PMS and evaluate them.

The DMR also stated that funding and personnel authorizations for PEO offices, and those of PMS reporting to them, should be administered separately from the materiel and systems commands.

Excluding the criterion of “managing all major acquisition programs,” which is discussed below, each service, as described by their officials, has revised its PEO positions⁷ consistent with the above criteria.

According to these officials, the three-tier chain is now designed to give PEOs, PMS, and where applicable, Direct Reporting Program Managers, more authority and control over acquisition funds and personnel allocated to their respective programs.

We were told that three-tier acquisition funds now flow from the DOD and services’ comptroller offices to the SAE, and ultimately to the PEOs/PMS. Under this new funds flow process, the materiel and systems commands’ comptroller offices serve as “banks” for the three-tier structure. These commands do not have the authority to manage or reprogram these funds. Such management decisions, according to service officials, are made by the three-tier officials. The acquisition funds administered

⁷ At the time of our review, there were 6 PEO positions in the Air Force, 6 in the Navy, and 12 in the Army.

PEOs Are Not Managing All Major Acquisition Programs

by these officials include monies for (1) procurement, (2) operations and maintenance, and (3) research, development, testing, and evaluation.

Officials also stated that PEOs now have more control over their permanently assigned staff and the support staff provided by the materiel and systems commands. According to the officials, PEOs now rate their permanent staff and provide written advice on the ratings of support staff supplied by these commands. Prior to DMR implementation, the materiel and systems commands controlled such resources.

Contrary to DMR criteria, PEOs are not managing all major acquisition programs. According to officials from all three services, certain types of major acquisition programs are, or will be, managed by their materiel and systems commands rather than their PEOs. After DMR implementation, the Navy and Air Force requested permission from the Under Secretary of Defense for Acquisition (USD(A)) to retain certain major programs in their systems and logistics commands. This action was taken in accordance with the 1989 DOD Directive 5134.1, which gives the (USD(A)) authority to designate the type of oversight for major defense acquisition programs. As a result of this action, the Navy's systems commands retained management authority for 21 of its 51 major acquisition programs. The Air Force's systems/logistics commands kept similar authority for 7 of its 30 major and selected nonmajor⁸ programs. The Army, according to one official, transferred management authority for its mature, major programs from the Army Materiel Command to its three-tier acquisition system when the latter was established in 1987. In late 1988, management authority for mature, major programs was transferred back to the Army Materiel Command, where it remains today. This official also told us that, at the time of our review, the Army Materiel Command was managing 9 of the Army's 39 major programs.

According to Navy officials, programs retained by their systems commands included those that were (1) in mature, stable production, (2) not subject to any planned major upgrades, and (3) not presently involved in any substantial matters of controversy or significant Defense Acquisition Board⁹ issues. Examples of systems meeting this criteria and retained are the SSN 688 submarine, and the Phoenix and Sparrow missiles. Three of the 21 programs retained by the Navy system commands,

⁸The nonmajor programs were selected by the Secretary of the Air Force, SAE, and USD(A) as requiring major PM procedures.

⁹This board is the primary DOD forum for resolving issues, providing and obtaining guidance, and making recommendations to the Secretary of Defense on all acquisition matters.

did not meet these criteria, but involved other special factors according to Navy officials.

The Air Force took a similar approach to the Navy. In a March 13, 1990, memorandum to the USD(A), the Air Force identified its criteria for retaining major programs in its systems and logistics commands. This memorandum stated that these commands should manage certain categories of programs. These categories included programs that (1) are in the early stages of development—pre-milestone I (pre-concept) approval, (2) have minimal development risks, (3) have passed milestone III (post-production) and are operational, and (4) are stable, mature, and have met all Defense Acquisition Board requirements. Examples of systems meeting this criteria, and retained under the Air Force's systems and logistics commands, are the KC-135 aerial refueling tanker, and the Maverick missile.

In addition to giving the materiel and systems commands control over certain major acquisition programs, officials from all three services stated that programs presently under the three-tier structure will eventually be transferred to their materiel and systems commands. Navy and Air Force officials stated that such a transfer will be made when these programs meet their above stated criteria. Navy officials told us that future transfers of this kind will be done on a case-by-case basis and only with the USD(A)'s approval. Officials within the Air Force stated that the decision for this transfer will be made on a case-by-case basis, but unlike the Navy, with approval from the SAE once the USD(A) has designated the program as a service responsibility.

According to an Army official, transfers from the three-tier structure to its materiel command and major subordinate commands have occurred since late 1988. This shift occurs after a system has been provided to the end user on a permanent basis following completion of operational testing and low-rate production. We were told that criteria for this transition are also established on a case-by-case basis. However, this decision, as currently stipulated in Army regulations, is made with final approval by the SAE. According to an Army official, the Army did not interpret DOD Directive 5134.1 to be applicable to the transfer of mature, major programs. Examples of systems transferred from the three-tier structure are the UH-1 helicopter, M-60 battle tank, and the M-113 armored personnel carrier.

Although the DMR did not address transferring three-tier programs to the materiel and systems commands, an official from the USD(A)'s office told

us that the revised DOD Instruction 5000.2 will establish uniform criteria and procedures for these actions.

PMs

Prior to DMR implementation, PMs were briefing existing command officials. For example, in November 1989, we reported that some Army PMs were briefing officials of the Army Materiel Command and its major subordinate commands because these commands controlled the resources PMs needed for executing their programs.

To minimize the number of briefings that PMs must provide and to ensure that they possess the characteristics envisioned by the Packard Commission, the DMR required the services to establish PMs that

- report all matters of program cost, schedule, and performance only to their respective PEO and¹⁰
- have broad responsibility for, and commensurate authority over, assigned major acquisition programs.

According to service officials, each PM now reports directly to his or her respective PEO or SAE on all matters relating to program cost, schedule, and performance. In addition, we found that three-tier PMs were given more authority and control over their acquisition programs. As previously stated in the PEO section of this report, PMs, along with their respective PEOs, have more control over their personnel and funding since their resource authorizations are now separate from the materiel and systems commands.

According to service officials, PMs are no longer required to brief the materiel and systems commands, since these commands do not have control of the three-tier acquisition system. However, service officials indicated that some briefings to these commands, by PMs, may be desired to ensure adequate coordination and communication. They believed, however, that the three-tier structure would not be hindered by these actions.

In a related effort to reduce briefings, the USD(A), along with the SAEs, issued policy to decrease the number of briefings required at the Office of the Secretary of Defense and service levels. They directed that PMs give no more than two briefings within the Secretary's office prior to

¹⁰In addition, the services established Direct Reporting Program Managers that report directly to their respective SAE.

briefing the Defense Acquisition Board, and no more than two formal briefings within the service once PMS are ready to go before this board.

Materiel and Systems Commands

We reported in 1989 that the Air Force Systems Command and Army Materiel Command continued to have major acquisition management, oversight, and policy-making responsibilities within their respective services. In an effort to clarify management accountability and streamline the major acquisition management process, the Defense Secretary directed that the roles and responsibilities of the materiel and systems commands for major weapons acquisitions be limited to supporting the three-tier structure. The DMR limits the materiel and systems commands' acquisition roles to

- providing logistical support to the three-tier chain,
- managing programs other than those in the three-tier chain,¹¹ and
- providing support services¹² to PEOS and PMS while duplicating none of their management functions.

According to service officials, as a result of the DMR, the materiel and systems commands are no longer involved in three-tier acquisition management, and they are not duplicating three-tier management functions, thus reducing a layer of management and related oversight levels. These commands are providing logistical and service support to the three-tier acquisition structure, especially in the form of support staff, and are managing all acquisition programs not assigned to the three-tier chain. For these programs, the materiel and systems commands are accountable to the SAE.

Implementation Status

Progress has been made in implementing the DMR-directed three-tier acquisition structure. However, the future success of this structure is far from certain. Historically, efforts to overcome a cultural change of this kind have proven difficult, especially if such actions are not institutionalized through formal, written directives and formal guidance. Since the DMR was issued, the Navy and the Air Force have issued some guidance/charters concerning the responsibilities of their SAEs and PEOS. The Navy has also (1) drafted charters that define the roles and responsibilities of its systems commands and (2) issued memorandums of

¹¹These include less than major programs and mature, major programs that were retained by or transferred to the materiel and systems commands.

¹²These services include financial, technical, personnel, and administrative support.

understanding, called operating agreements, that describe the interaction between the three-tier structure and these commands.

The Air Force has not updated its regulations to reflect the DMR changes. In February 1990, the Air Force issued its regulation on acquisition management that implements DOD's 1987 guidance (DOD Directive 5000.1 and DOD Instruction 5000.2) and other related material prior to the DMR. This regulation defines the responsibilities, authority, and structure of the Air Force's acquisition system. Memorandums of understanding between the Air Force PEOS and system commands were not prepared because, according to a service official, the SAE did not believe they were necessary.

According to an Army official, the Army had not updated its acquisition guidance or revised its charters since publication of the DMR. This official stated the Army was awaiting publication of DOD's revised DOD Directive 5000.1 and DOD Instruction 5000.2 before updating their detailed acquisition policies and procedures. Although the Navy and the Air Force have issued some implementing guidance, as noted above, officials from these two services stated they too were awaiting issuance of revised DOD acquisition guidance before updating their service-level guidance. DOD Directive 5000.1 and DOD Instruction 5000.2, according to DOD officials, will set forth the managerial policies and procedures for the entire acquisition system.

DOD Directive 5000.1 and Instruction 5000.2 were last published in September 1987 and, according to officials in the USD(A)'s Office, the updated versions are in the final stages of revision. At the time of our review, DOD officials in the USD(A)'s Office told us that the revised guidance would be issued by the end of calendar year 1990. Since the services have made considerable modifications in their materiel and systems commands and in their PEO structure, especially within the Navy and Air Force, revising DOD guidance within the targeted time frame is important.

Scope and Methodology

We reviewed the 1986 Packard Commission's report, the Secretary of Defense's DMR, service-related implementation plans, DOD's January 1990 DMR implementation status report, and applicable DOD and service-issued DMR guidance. In addition, we studied some of our previously issued reports on DOD's acquisition system, as well as studies performed by other organizations external to DOD. To gain a better understanding of

how the services planned to implement the DMR, we attended a series of DOD briefings.

To determine the implementation status of DMR acquisition-related recommendations, we obtained information on each services' revised three-tier acquisition structure. We also interviewed senior officials in the Office of the Secretary of Defense and in each of the services. These officials were from the USD(A)'s Office and the services' headquarters, materiel and systems commands, and SAE and PEO offices, all located in the Washington, D.C., area. We did not interview PMS, as the services' initial DMR implementation actions were primarily centered on the SAE and PEO positions and the materiel and systems commands.

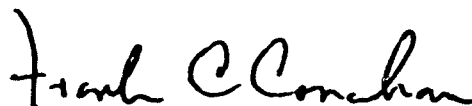
Our review was performed between January and August 1990 in accordance with generally accepted government auditing standards.

We did not obtain formal comments from DOD on this report. However, DOD officials did review a draft of this report and, where appropriate, their comments were incorporated in our final report.

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from the date of this letter. At that time, we will send copies of this report to the Secretary of Defense and to other interested parties upon request.

This report was prepared under the direction of Paul Math, Director, Research, Development, Acquisition, and Procurement Issues, who may be reached on (202) 275-8400, if you or your staff have any questions. Other major contributors are listed in appendix I.

Sincerely yours,



Frank C. Conahan
Assistant Comptroller General

Major Contributors to This Report

National Security and
International Affairs
Division, Washington,
D. C.

Michael E. Motley, Associate Director
James F. Wiggins, Assistant Director
William M. McPhail, Evaluator-in-Charge
Marion A. Gatling, Evaluator